

Proposed City of Minneapolis
Financial Planning and Policy Resolution: Independent Boards
July 8, 2002

Whereas:

1. At the direction of the Mayor and City Council, the City has prepared a ten-year financial projection of demands on the city property-tax supported funds, a summary of which is attached as Exhibit A and incorporated herein by reference;
2. The projection demonstrates that the known demand on property tax revenues will significantly exceed reasonably foreseeable resources;
3. The Mayor and Council are developing a long-term strategy for managing the financial challenges documented in the ten-year projection and wish to engage the Independent Boards and the Board of Estimate and Taxation as partners in that strategy;
4. Recognizing that all City of Minneapolis taxing jurisdictions draw revenue from the same taxpayers, The Mayor and Council support an enterprise approach to establishing future property tax revenue projections. The Mayor and Council further support setting the maximum annual property tax levy at no more than an 8-percent annual increase for budget years' 2003 through 2010, inclusive of the levy for the Independent Boards, including the voter-approved library referendum;
5. The Mayor and Council desire to work with the Independent Boards and the Board of Estimate and Taxation to set long range financial parameters so that our joint taxpaying customers and our individual City governing boards can all make more informed business decisions about respective annual budgets.
6. The Mayor and Council desire to work with the Independent Boards in a fair and consistent manner.

Therefore Be It Resolved, That the Mayor and Council hereby adopt the following Policy Statements as provided below in Items A through E, with respect to the Independent Boards, to serve as a framework for developing the 2003 budget as well as long-term financial plans for the City and Independent Boards; and

Be It Further Resolved That the Mayor and Council submit to the Board of Estimate and Taxation recommended maximum property tax levies for taxes payable in year 2003, as shown in Appendix A. The Mayor and Council also request the Board of Estimate and Taxation to consider adopting parallel policy statements to Policy Statements A through E, adopted by the Mayor and Council as part of this resolution.

Policy Statements (A through E):

(A) Local Government Aid (LGA) from the State of Minnesota

The Mayor and Council will remain committed to August 26, 1994, Council action which based the annual enterprise distribution of LGA revenues on a stable percentage in exchange for a cap in individual board property tax levies.¹

The Mayor and Council will allocate LGA consistent with the 1994 agreement provided the independent boards adhere to the tax levy provision outlined in the original agreement, with the one modification. The Mayor and Council hereby propose amending the policy to provide for a maximum 4-percent annual increase in property tax levy versus the 3-percent included in the original 1994 agreement.

Consistent with the 1994 adopted agreement with the Independent Boards, the Council will distribute LGA based upon the following percentage allocation, as outlined below.

	<u>% Distribution of LGA</u>
Library Board	8.05%
Park Board ²	11.79%
Municipal Building Commission	0.30%
Board of Estimate and Taxation	0.10%
City Council	79.76%
Total	100.00%

The Council policy will continue to be that the City and the Independent Boards will share any legislative reductions or increases in LGA, using the same percentages as outlined above.

In the event an Independent Board's property tax levy increase exceeds 4-percent (adjusted for any one-time shifts), the City Council will reduce the LGA payment to the board to offset the additional increase.

If state legislation creates new aid programs for general city purposes, the Mayor and Council expresses the intent to negotiate with the Independent Boards an appropriate allocation basis for this revenue.

¹ LGA is calculated and distributed to the City by the State of Minnesota as provided for in State Statute 477A.

² The allocation of LGA to the Park Board will increase from 10.89% in budget year 2002 to 11.79% in budget year 2003, provided the Park Board reduces their base property tax levy by \$1.0 million, which will be added to the City's General Fund base levy. The allocation of LGA to the General Fund will decrease from 80.66% in budget year 2002 to 79.76% in budget year 2003. This net result will be a \$1.0 million shift in LGA distribution from the General Fund to the Park Board and a \$1.0 shift in property tax levy from the Park Board to the General Fund, from budget year 2002 to 2003.

(B) Management Support Charges

The Independent Boards will be charged for the actual cost of providing management support services to the boards. The basis for allocating costs will be the same as that used for Council departments. Management support services include, but are not limited to, services provided by the following city departments: Information Technology, Finance, and Human Resources.

Management support charges, as included in the Council's adopted 2002 budget, will be capped at \$800,000 for the Park Board and \$300,000 for the Library Board for both the 2002 and 2003 budget.

Beginning with the 2004 budget, the management support charges to the Independent Boards will be based upon standard accounting practices for allocating costs. The method and procedure to calculate the pro-rated costs and collection of the charge will be finalized and communicated to the Independent Boards by December 31, 2002.

As provided for in the 2002 budget footnotes, the City Finance Officer has the authority to reduce LGA payments to the Independent Boards if payment of the management support charge is not received prior to the distribution of the December LGA payment.

(C) Adjustments to Prior Year Increases in Property Tax Levies

As stated in Item A, the Mayor and Council remain committed to the 1994 budgetary policy regarding the Independent Boards. The 1994 policy has two parts (1) a stable percent allocation of LGA and (2) a 3-percent cap in annual property tax levy increases for the Independent Boards, which will be amended to a 4-percent cap beginning with the 2003 budget. The Park and Library Boards both had increases in 2002 property tax levies above this threshold. The Mayor and Council consider the portion of property tax levy increase above the policy threshold to be one-time funds for year 2002. The baseline tax levies for both entities should return to a level that corresponds to the 1994 agreement.

(D) Infrastructure Gap Funding

The Mayor and Council will support funding infrastructure "gap" closure for the Independent Boards in a similar manner to that of Public Works.

The City's adopted *2002-2006 Capital Improvement Plan (CIP)* provides for closing 27% of Public Works infrastructure "gap", supported by property taxes, by

year 2009³. To achieve this goal the property tax levy will need to increase by \$1.0 million annually from 2003 to 2009.

The Mayor and Council support a future funding plan for the Park Board that closes 27% of the previously identified \$5.5 million annual funding gap for park infrastructure by 2009. To achieve this goal \$215,000 of additional property tax levy will be added annually to the Park Board levy, for a total of \$1.5 million in additional annual funding by 2009.

The Mayor and Council support reducing the base property tax revenue for the Park Board by the amounts added in years' 2001 and 2002 for Park Board capital purposes. In years' 2001 and 2002, \$1.5 million was added each year to the Park Board base property tax levy, or \$3.0 million in total over this two-year period of time. The Park Board has received the benefit of the additional \$4.5 million collected in property tax levy over this two-year period of time.

Recommended Park Board Capital Improvement Plan:

<i>(In millions of dollars)</i>	2003	2004	2005	2006	2007	2008	2009
Base Capital Funding ⁴	\$1.9	\$1.9	\$1.9	\$1.9	\$1.9	\$1.9	\$1.9
"Gap" Funding	\$0.2	\$0.4	\$0.6	\$0.9	\$1.1	\$1.3	\$1.5
Total Capital Funding	\$2.1	\$2.3	\$2.5	\$2.8	\$3.0	\$3.2	\$3.4

(E) Alternative Revenue Strategies

The Mayor and Council will work in cooperation with the Park Board and Library Board to develop alternative funding strategies (i.e., land trusts and expanded friends of the parks and library), other than the property tax, for raising additional funds to support program and capital needs.

The Mayor and Council will not support any new referenda for the Independent Boards because of the significant pressure a referendum would create on the already burdened property tax. The Mayor and Council will act to educate taxpayers about the financial burden any new referenda would create for taxpayers.

³ The 1997 State of the Public Works Infrastructure Report identified a \$44 million property tax supported funding gap for improving and maintaining public works infrastructure. The original plan was to fund 50% of this gap over a 10-year period time.

⁴ The 2002-2006 adopted CIP includes \$1,920,000 in net debt bond funding for the Park Board.

APPENDIX A

Certified Gross Property Tax Levy For City Council, Independent Boards, and Special Levies						
	2001 Adopted Base Levy	2002 Adopted Base Levy	2001 to 2002 % Chg	2003 Proposed Base Levy	2002 to 2003 % Chg	2001 to 2003 % Chg
City Council Funds	63,028,212	53,632,760	-14.9%	61,495,761	14.7%	-2.4%
City Council - Internal Service Funds	4,000,000	7,200,000	80.0%	10,900,000	51.4%	172.5%
Total City Council	67,028,212	60,832,760	-9.2%	72,395,761	19.0%	8.0%
City Council Debt Service ⁵	21,877,000	28,560,040	30.5%	29,060,040	1.8%	32.8%
Park Board	27,809,943	34,796,759	25.1%	32,671,759	-6.1%	17.5%
Library Board	10,374,165	11,852,485	14.3%	11,242,485	-5.1%	8.4%
Library Referendum ⁶				450,000		n/a
Total Library	10,374,165	11,852,485	14.3%	11,692,485	-1.3%	12.7%
Municipal Building Commission ⁷	2,511,026	3,272,966	30.3%	3,502,966	7.0%	39.5%
Board of Estimate and Taxation	114,000	124,000	8.8%	128,960	4.0%	13.1%
City Council Pensions ⁸	3,492,260	7,373,000	111.1%	9,373,000	27.1%	168.4%
City Council Community Development (Special Levy)		4,000,000	n/a	4,160,000	4.0%	n/a
Minneapolis Public Housing Authority (Special Levy)	1,000,000	1,000,000	0.0%	1,040,000	4.0%	4.0%
Teachers Retirement Fund (Special Levy) ⁹	1,950,100	2,100,000	7.7%	2,250,000	7.1%	15.4%
Total	136,156,706	153,912,010	13.0%	166,274,971	8.0%	22.1%

⁵ The Debt Service Levy increased significantly from 2001 to 2002 due to the elimination of HACA.

⁶ This amount has already been set by voter approval.

⁷ The Municipal Building Commission (MBC) property tax levy for year 2002 was adjusted to reflect an error in calculation from the prior year 2001 amount. In 2001, the MBC received cash from a General Fund transfer, which was then correctly replaced with property tax levy in year 2002.

⁸ This amount is set by state law.

⁹ This amount is set by state law.

APPENDIX B

Adopted Certified Property Tax Levies Plus State Aids For City Council, Independent Boards, and Special Levies					
	1994 Adopted	2002 Adopted	2003 Proposed	Cumulative % Change from 1994 to 2002	Cumulative % Change from 1994 to 2003
City Council	105,998,100	150,818,760	165,715,346	42.3%	56.3%
City Council Debt Service	16,000,000	28,560,040	29,060,040	78.5%	81.6%
Park Board	29,354,000	46,950,759	46,465,653	59.9%	58.3%
Library Board ¹⁰	14,491,000	20,833,485	21,111,137	43.8%	45.7%
Municipal Building Commission ¹¹	3,030,000	3,607,966	3,854,241	19.1%	27.2%
Board of Estimate and Taxation	202,000	236,000	245,553	16.8%	21.6%
City Council Pensions ¹²	18,855,000	7,373,000	9,373,000	-60.9%	-50.3%
City Council Community Development (Special Levy)	n/a	4,000,000	4,160,000	n/a	n/a
Minneapolis Public Housing Authority (Special Levy)	937,000	1,000,000	1,040,000	6.7%	11.0%
Teachers Retirement Fund (Special Levy) ¹³	1,250,000	2,100,000	2,250,000	68.0%	80.0%
Total	190,117,100	265,480,010	283,274,971	39.6%	49.0%

¹⁰ This amount includes \$450,000 (year 2003) of levy for payment on bonds set by voter approval.

¹¹ The Municipal Building Commission (MBC) property tax levy for year 2002 was adjusted to reflect an error in calculation from the prior year 2001 amount. In 2001, the MBC received cash from a General Fund transfer, which was then correctly replaced with property tax levy in year 2002.

¹² This amount is set by state law.

¹³ This amount is set by state law.

Appendix C

Certified Property Tax Levies Plus State Aid (LGA) for City Council, Independent Boards, and Special Levies

	2002 Total Revenue	Reconciliation of Change in Total Revenue from 2002 to 2003 Proposed						2003			% Chg in	
		Estimated Increase/Change to LGA	Base Levy Growth	Adjustment to Prior Year Levy Increases	Reset Levy to Restore LGA formula	Levy for Internal Service Funds/Other Debt Obligations	Total Levy and LGA Changes	2003 Proposed Levy	2003 Proposed State Aid (LGA) Estimated	2003 Total Revenue	Total Revenue	% Chg in Levy
City Council	186,751,800	3,333,585	6,863,001		1,000,000	6,200,000	17,396,586	110,828,801	93,319,585	204,148,386	9.3%	14.5%
Park Board[5]	46,950,759	1,639,894	1,660,000	(2,785,000)	(1,000,000)		(485,106)	32,671,759	13,793,894	46,465,653	-1.0%	-6.1%
Library Board	20,833,485	437,652	700,000	(1,310,000)			(172,348)	11,242,485	9,418,652	20,661,137	-0.8%	-5.1%
Library Referendum[1]						450,000	450,000	450,000		450,000		
Total Library	20,833,485	437,652	700,000	(1,310,000)	-	450,000	277,652	11,692,485	9,418,652	21,111,137	1.3%	-1.3%
Municipal Building Commission[2]	3,607,966	16,275	230,000				246,275	3,502,966	351,275	3,854,241	6.8%	7.0%
Board of Estimate and Taxation	236,000	4,593	4,960				9,553	128,960	116,593	245,553	4.0%	4.0%
Community Development (Special Levy)	4,000,000		160,000				160,000	4,160,000		4,160,000	4.0%	4.0%
Minneapolis Public Housing Authority (Special Levy)	1,000,000		40,000				40,000	1,040,000		1,040,000	4.0%	4.0%
Teachers Retirement Fund (Special Levy)[4]	2,100,000					150,000	150,000	2,250,000		2,250,000	7.1%	7.1%
Total	265,480,010	5,432,000	9,657,961	(4,095,000)	-	6,800,000	17,794,961	166,274,971	117,000,000	283,274,971	6.7%	8.0%

[1] This amount has already been set by voter approval.

[2] The Municipal Building Commission (MBC) property tax levy for year 2002 was adjusted to reflect an error in calculation from the prior year 2001 amount. In 2001, the MBC received cash from a General Fund transfer, which was then correctly replaced with property tax levy in year 2002.

[3] This amount has already been set by state law.

[4] This amount has already been set by state law.

[5] The adjustment to prior year levy increases includes the elimination of \$3.0 million of levy for pay-go capital, with a \$215,000 add back for infrastructure "gap" closure funding.

EXHIBIT A: Ten-Year Annual Demand on Property Taxes

Annual Property Tax Revenue Increases (in millions)	Adopted			Projected (before policy decisions)							
	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
City General Fund Operations:											
Net Base Increase	9.00	7.80	7.53	8.53	8.97	9.42	9.90	10.40	10.91	11.46	12.02
Decision Packages - New Programs/Initiatives	2.65	0.32	2.50								
Health Insurance (in addition to base increase)			2.10	2.44	2.83	3.28	3.80	4.41	5.11	5.93	6.88
Infrastructure Maintenance Gap Closure Program		1.60	0.55	0.80	0.80	0.80	0.80	0.80	0.80		
PERA Employer Contribution (change in formula)			0.40								
CDBG overallocation for Block E project				1.00							(1.00)
Self Insurance Fund (placeholder)				0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Intergovernmental Services Fund adopted workout plan	1.00	1.00	1.20	1.20	1.20	1.20	1.20	1.20	1.20		
Equipment Services Fund adopted workout plan	1.00	1.00	2.00	2.00	2.00	2.00					
Local Govt Aid/HACA - Chg in Distribution			(8.40)	1.00							
Tax Abatement			0.50								
General Fund Contingency			0.30	0.30	0.30	0.30	0.30	0.30	0.30	0.30	0.30
Targeted Strategies to Decrease Spending/Raise Fees	(9.31)	(6.74)	(13.87)								
Subtotal	4.33	4.98	(5.19)	17.77	16.59	17.50	16.50	17.61	18.82	18.19	18.70
City Capital/Debt:											
Infrastructure Capital Gap Closure Program began in 1999	2.00		1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	
Permanent Improvement Fund			(0.02)	0.19	0.20	0.21	0.42	0.44	0.46	0.48	0.50
Ten Year Debt Reduction Program began in 1999	0.90	0.90	0.90	0.90	0.90	0.90	0.90	0.90	0.90		
Public Safety Initiative began in 2001		0.50	0.50	0.50							
Local Govt Aid/HACA - Chg in Distribution			3.40								
Judgement Bonds		1.10									
Subtotal	2.90	2.50	5.78	2.59	2.10	2.11	2.32	2.34	2.36	1.48	0.50
City Total	7.23	7.48	0.59	20.36	18.69	19.61	18.82	19.95	21.18	19.67	19.20
Independent Boards and Special Levies											
Park Board Base Levy (4.0% growth factor beg. in 2003)	1.57	1.54	1.88	1.66	1.73	1.80	1.87	1.94	2.02	2.10	2.19
Park Board - Local Govt Aid/HACA - Chg in Distribution			1.41	(1.00)							
Park Board Operating (Referendum Agreement)		1.13	1.20	1.30	1.30						
Park Board Capital (Referendum Agreement)		1.50	2.50	1.50	1.00						
Subtotal Park Board	1.57	4.17	6.99	3.46	4.03	1.80	1.87	1.94	2.02	2.10	2.19
Library Board Base Levy (4.0% growth factor)	0.65	0.63	2.03	0.69	0.71	0.74	0.77	0.80	0.83	0.87	0.90
Library Board - Local Govt Aid/HACA - Chg in Distribution			(0.55)								
Library Board - Referendum Levy				0.40	3.00	3.00	3.00	3.00			
Subtotal Library	0.65	0.63	1.48	1.09	3.71	3.74	3.77	3.80	0.83	0.87	0.90
Municipal Bldg Commission (4% growth factor)	0.05	0.13	0.76	0.23	0.24	0.25	0.26	0.27	0.28	0.29	0.30
Community Development - Chapter 595 Special Levy			4.00	4.00	4.00	4.00	4.00	4.00			
Minneapolis Public Housing Authority - Special Levy				1.00	1.40						
Teachers Retirement Assoc. - Special Levy	0.15	0.15	0.15	0.15							
Pension Funds MERF, Police, and Fire	(1.45)	(2.13)	3.86	2.00	2.20	2.70	3.20	3.50	1.30	0.70	0.40
Total Independent Boards and Special Levies	0.97	2.95	17.24	11.93	15.58	12.49	13.10	13.52	4.44	3.96	3.79
Grand Total	8.20	10.44	17.83	32.28	34.27	32.10	31.92	33.46	25.62	23.63	22.99
Total Property Tax Revenue	125.72	136.16	153.99	186.27	220.54	252.64	284.56	318.03	343.65	367.27	390.27
Annual Percent Increase		8.3%	13.1%	21.0%	18.4%	14.6%	12.6%	11.8%	8.1%	6.9%	6.3%